



ASRS REPORT

ARIZONA STATE RETIREMENT SYSTEM

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This report provides a briefing of news and notices important to our members, retirees and employer partners, as well as other interested parties. It is produced by the ASRS on a periodic basis and posted to the ASRS website. If you would like to receive an email notice when the next issue is posted, and you are not already on our email list, please contact us at weeklyreport@azasrs.gov and provide your name, email address, telephone number and title and organization, if applicable.

ASRS News

ASRS Contribution Rate to be lowered PBI News System Member 13th Check News

At its November 21, 2008 meeting, the ASRS Board of Trustees approved new contribution rates for the Defined Benefit Plan for fiscal year 2009, which take effect July 1, 2009. The contribution rates are as follows:

Combined Pension Plan and Health Insurance Benefit:

Current Contribution Rate: 8.95%
Rate for July 1, 2009: 9.0%

Long-Term Disability (LTD):

Current Contribution Rate: 0.50%
Rate for July 1, 2009: 0.40%

Total Contribution Rate (Pension plus Health Insurance plus LTD):

Current Contribution Rate: 9.45%
Rate for July 1, 2009: 9.40%

The slight decrease in the total contribution rate was made possible by a reduction in the LTD portion. Keep in mind that if the markets continue to decline, or fail to improve over the next fiscal year, contribution rates for fiscal year 2010-11 will have to increase.

Also, there will be no additional Permanent Benefit Increase for retired members since there are currently no excess earnings to distribute. All current PBIs will continue to be included in benefit checks.

For members of the ASRS Defined Contribution "System", (not the Defined Benefit Plan of which the vast majority of ASRS members are participants) there will be no additions to the 13th check or to the supplemental credit this year, as the ASRS actuary reported that the funded status of the System is 102 percent. When the "System" fund is between 95 percent and 105 percent, ASRS rules provide for benefits to remain the same.

Questions & Answers regarding current market conditions

Question: What impact has the volatile stock market had on the ASRS in recent months?

Answer: The ASRS is invested in nearly all sectors of the market, including the major indexes. When the markets go up, the ASRS fund increases; when the markets go down, so does the ASRS fund. Over the course of the current economic downturn, the ASRS total fund has declined from \$24.8 billion in early September to approximately \$19.3 billion today.

Q: What impact does that have on members?

A: Keep in mind that most members of the ASRS are members of the **defined benefit plan**. Benefits are determined by a formula that takes into account years of service and average salary at the time of retirement. The ups and downs of the stock market do not affect the level of your retirement benefit, as it would with a defined contribution plan, such as a personal 401(k) plan.

For retired members, their monthly lifetime benefit is guaranteed not to decline, despite what the markets, or the ASRS total fund, may do at any given time. However, prolonged down markets make it difficult for the ASRS to accumulate excess funds, which are used to fund the Permanent Benefit Increase program. That benefit, defined in state statute, provides for an increase to retirees' monthly benefits only when excess earnings are sufficient to generate such an additional benefit. There will be no increase to the PBI for the coming fiscal year, which begins July 1, 2009.

For active members, prolonged down markets that lead to multiple years of rates of return below the ASRS assumed earnings rate of 8 percent put upward pressure on contribution rates. The contribution rate for the defined benefit plan and the health insurance premium benefit program, and the ASRS Long Term Disability plan, is currently 9.45 percent. Contribution rates for the upcoming fiscal year, which begins July 1, 2009, will actually decrease slightly, to 9.40 percent. This is due primarily to a decrease in the LTD rate – from the current 0.50 to 0.40. If the markets remain depressed or continue to decline contribution rates for July 1, 2010 would have to increase.

For inactive members who have an account balance with the ASRS but are no longer making contributions because they are no longer employed by a participating employer, their accounts continue to accrue interest at the rate of 8 percent. (For withdrawal purposes, however, contributions made from July 1, 2005 forward are subject to 4 percent interest.)

Q: Where are the ASRS investments, and have you made changes based on the current state of the markets?

A: The ASRS manages a well-diversified portfolio that is designed to produce returns over a long period of time. This institutional investment approach relies primarily on an asset allocation strategy that does not radically change due to market conditions. The ASRS Strategic Asset Allocation Policy is as follows:

U.S. Stocks	45%
Large Cap:	31%
Mid Cap:	7%
Small Cap:	7%
Fixed Income.....	26%
International Stocks.....	18%
Real Estate.....	6%
Private Equity	5%

There are, however, opportunities to shift funds to take advantage of market conditions. For example, in recent weeks the ASRS has:

- Tactically committed and invested capital to non-U.S. Treasury securities (trading at attractive historical yields).
- Through our Global Tactical Asset Allocation (GTAA) sector, we have marginally reduced over-weighting in equities and commodities, reallocating to fixed income.
- Continued to analyze markets for other opportunistic investments.

Q: How have the investments performed?

A: The ASRS total fund rate of return for the fiscal year to date remains in negative territory. Keep in mind, however, that this number changes daily. The rate of return for the last fiscal year was -7.6 percent. Since the inception of the fund, the rate of return is 10.4 percent for the period ending June 30, 2008.

Q: Why not make bolder moves when the markets are declining sharply? Why not bail out of the financial sector, for example?

A: Timing the markets to produce a steady return is difficult, if not impossible. Consider this: During the 10-year period ending December 31, 2007, the S&P 500 Index achieved an annualized return of 5.9 percent. If an investor had missed just the top 20 days during this period, the return would have fallen to -2.5 percent.

Q: Should I be worried about my retirement savings?

A: Obviously, market conditions affect us all. During these volatile times, the ASRS will continue to closely monitor investments and make adjustments when prudent, but will continue to take a long-term approach to investing.

It is in such times that members can be particularly reassured as participants in a defined benefit plan that is supported by a professionally managed, well-diversified portfolio that benefits are guaranteed, and not tied to any account balance that may go up or down.

Funds used to pay benefits come into the Retirement System through member and employer contributions, and from investments. Although the market value of the ASRS fund will fluctuate, as will the markets in general, there are sufficient funds to meet current guaranteed benefit obligations to our retirees.

Retiree News

Health Insurance Open Enrollment closes

The Arizona State Retirement System 2009 Open Enrollment period concluded November 14. All changes made during the Open Enrollment period become effective January 1, 2009.

Open Enrollment applies to any retired member of the Arizona State Retirement System or any member who is receiving a long-term disability benefit from the ASRS, and who is not enrolled in health benefits through their former employer. Members or any eligible dependents who have not taken the opportunity to enroll previously in one of the group medical or dental plans also will be able to enroll during this period.

Members currently participating in the ASRS health insurance program did not need to take any action if they wanted current coverage to carry over to 2009. Current ASRS benefit elections will automatically carry forward to 2009, and, in such cases, participants will not receive new insurance cards.

Premiums and plan provisions currently in place will carry forward to 2009 and will not change.

Member News

Educational meetings offered to inform, assist members

The Member Services Division of the ASRS conducts educational meetings available to all members. Whether you're newly hired and want to learn about the benefits available to you, or you're ready to retire and want assistance filling out your paperwork and making annuity selections, the ASRS has a meeting for you.

Know Your Benefits

This meeting is especially beneficial to new members. You'll learn about the many benefits of belonging to the Arizona State Retirement System, including a history and overview of the ASRS, how your pension is calculated and how to maximize your future benefit, member responsibilities, disability and survivor benefits, options should you leave ASRS employment, and more. Also covered will be the Service Purchase benefit, through which a member may purchase, under certain circumstances, time they worked under other qualified employer plans.

Getting Ready for Retirement

This meeting is vital for members who are planning to retire within a year. You'll learn about your pension benefit and how it's calculated, options for retiree health insurance and other benefits, return to work options and more. Members who register for this meeting will receive a personal benefit estimate and assistance in filing out the proper paperwork.

Know Your Insurance

This meeting has been created to provide information to members about the ASRS health insurance plans and benefits. Members planning to retire soon are encouraged to attend. You'll learn about health insurance options, meet providers, learn about the ASRS Premium Benefit, and how health insurance costs are determined.

Visit our website and click on the "Calendars" section to see a full listing of meetings taking place in Phoenix, Tucson and throughout the state at various locations. Reservations are required and can be made by calling our Member Advisory Center at (602) 240-2000 in Phoenix, (520) 239-3100 in Tucson, or (800) 621-3778 outside Phoenix and Tucson.

ASRS Board & Committee Meetings

ASRS Board of Trustees

Friday, December 19, 2008, 8:30 a.m. – ASRS Phoenix office, 3300 N. Central Ave., 10th floor Board Room.

Investment Committee

Thursday, December 11, 2008, 10 a.m. – ASRS Phoenix office, 3300 N. Central Ave., 14th floor.

External Affairs Committee

To be scheduled.

Operations Committee

To be scheduled.

Note: All Board & Committee meetings are open to the public and your attendance is encouraged. Schedules, agendas and minutes of meetings are posted on our website and are available at our Phoenix and Tucson offices.